

September 24, 2021

GVPR Engineers Limited: Ratings reaffirmed; outlook revised to Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Working Capital Facilities – Cash Credit	259.60	246.60	[ICRA]A Reaffirmed; Outlook revised to Positive from Stable
Non-fund based Bank Guarantee	1497.40	1772.40	[ICRA]A Reaffirmed; Outlook revised to Positive from Stable
Non-fund based Bank Letter of Credit	312.00	310.00	[ICRA]A1 Reaffirmed
Unallocated Limits	1031.00	771.00	[ICRA]A/[ICRA]A1 Reaffirmed; Outlook revised to Positive from Stable
Total	3100.00	3100.00	

*Instrument details are provided in Annexure-1

Rationale

The revision in outlook to positive factors in expected improvement in GVPR Engineers Limited (the company/GVPR) revenues for FY2022 driven by healthy order book of Rs. 11392.1 crore as on June 30, 2021. Although the revenues declined by ~22% to Rs. 1440.7 crore in FY2021 owing to the pandemic and delays in project approvals, GVPR reported ~Rs. 600.0 crore of revenues in 5M FY2022 and is estimated to witness more than 15% growth in OI in FY2022. Further, the ratings factor in decrease in share of state-government projects to 57% of the order book from 83% earlier, which is expected to result in improved cash conversion cycle going forward. The ratings also consider the improvement in the operating margins to 10.5% in FY2021 and 9.8% in FY2020 from 7.2% in FY2019 because of the reduced dependence on sub-contractors; and negative net debt position with unencumbered cash balance of Rs. 637.7 crore as on March 31, 2021. The ratings derive comfort from GVPR's established track record of over four decades in execution of irrigation and water drinking projects.

The ratings are, however, constrained by the high segment concentration risk with irrigation/drinking water projects contributing 88% of revenues in FY2021 and 85% of the order book as on June 30, 2021. While TOL/TNW remains high at 2.0 times; ICRA notes that this is on account of the sizeable provisions¹ of Rs. 502.4 crore as on March 31, 2021 towards warranty/O&M requirement of the projects for which the company also maintains commensurate liquidity. Adjusting for these, net TOL/TNW stands at 1.2 times as on March 31, 2021. Further, ICRA is given to understand that adequate cushion is built up as provisions to meet the costs during the O&M period (defect liability period). However, any increase in actual O&M expenditure vis-à-vis O&M income and provisions will remain a key rating monitorable. The ratings also remain constrained by moderate interest cover with PBDIT/interest expense of 2.7 times in FY2021. ICRA also notes the sizeable investment plans of ~Rs. 120.0 crore in the near term towards acquiring a land parcel auctioned by Government of Telangana which is expected to impact the company's free cash flows and liquidity position to some extent.

The positive outlook reflects ICRA's opinion that GVPR will be able to report healthy revenue growth on the back of strong order book, while maintaining its profitability margins and liquidity position.

¹ Given the long operations and maintenance (O&M) period for some of the projects (ranging between 5-10 years), the company has created provisions to the tune of Rs. 502.4 crore as on March 31, 2021 towards future O&M expenditure.

Key rating drivers and their description

Credit strengths

Healthy order book position – GVPR has a healthy order book of Rs. 11392.1 crore as on June 30, 2021 driven by strong order addition of Rs. 4201.4 crore in FY2021 and Rs. 726.4 crore in Q1 FY2022. The revenues declined by ~22% to Rs. 1440.7 crore in FY2021 owing to the pandemic and delays in project approvals. However, revenues are estimated to increase by more than 15% in FY2022 on the back of steady progress in recently awarded projects and adequate manpower to execute the existing projects. The company reported ~Rs. 600.0 crore of revenues in 5M FY2022 as compared to Rs.444.9 crore in H1 FY2021. Although OB/OI ratio is high at 7.9 times FY2021 revenue, the execution risks are mitigated to an extent given that material supply constitutes a large portion of billing for these projects.

Decrease in share of projects awarded by state-government agencies in order book – The share of projects from state government agencies decreased to 57% of the order book as on June 30, 2021 from 83% as on March 31, 2020 driven by water supply projects received in Uttar Pradesh under Jal Jeevan Mission scheme which are central-government funded. The payment cycle is expected to be timely which would support order execution and GVPR's working capital requirements.

Improvement in operating margin and negative debt position – The operating margins improved to 10.5% in FY2021 and 9.8% in FY2020 from 7.2% in FY2019 because of reduced dependence on sub-contractors. The margins for FY2022 will continue to remain at similar levels. Further, the net debt position remained negative, with unencumbered cash balance of Rs. 637.7 crore as on March 31, 2021. Moreover, the release of BGs (~Rs. 400 crore) for the old completed projects and retention money due to Covid-19 relaxations in FY2021 have resulted in sizeable cushion in bank guarantee limits.

Credit challenges

High TOL/TNW owing to sizeable provisions – The TOL/TNW remains high at 2.0 times on account of the sizeable provisions of Rs. 502.4 crore as on March 31, 2021 towards warranty/O&M requirement of the projects for which the company also maintains commensurate liquidity. Adjusting for these, net TOL/TNW stands at 1.2 times as on March 31, 2021. Further, ICRA is given to understand that adequate cushion is built up as provisions to meet the costs during the O&M period (defect liability period). However, any increase in actual O&M expenditure vis-à-vis O&M income and provisions will remain a key rating monitorable.

High segmental concentration – The share of revenues from irrigation/drinking water segment continued to account for nearly 90% of total revenues in the past two years. As on June 30, 2021, irrigation and water supply segments account for 85% of the pending order book followed by roads (6%) and other works (9%) such as STP and pumping station, transmission works etc. Given this, the segmental concentration is expected to be high over the medium term.

Sizeable investment plans in FY2022 – The company has proposed investment outlay of ~Rs. 120.0 crore in FY2022 towards acquiring a land parcel auctioned by Government of Telangana, which is expected to limit the free cash flows and liquidity position to an extent in the near term. Any incremental investments that depletes the company's liquidity reserve will be a key rating monitorable.

Liquidity position: Strong

GVPR's liquidity position is strong with unencumbered cash balance of Rs. 637.72 crore as on March 31, 2021 and Rs. 542.33 as on June 30, 2021. The debt repayment in FY2022 is Rs. 20.1 crore which can be comfortably met through cash flow from operations. The company has sizeable capex plans of Rs. 120.0 crore in FY2022, which is expected to be met through internal accruals and existing cash balances. Despite this, the company is expected to maintain sizeable cash balances going forward.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings if the company is able to significantly increase its revenues while maintaining its profitability and liquidity position. Specific credit metrics that could lead to an upgrade are PBDIT/interest expense higher than 3.5 times on a sustained basis.

Negative factors – Pressure on GVPR’s rating may arise if decline in billing or elongation of working capital cycle depletes the company’s liquidity reserve. Credit metrics that could lead to a downgrade will include net TOL/TNW increasing beyond 1.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Construction Entities
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

About the company

GVPR Engineers Limited was incorporated in 1997 by Mr. G. S. P. Veera Reddy, who is the promoter of the Company. The key management of the Company include Mr. G Shiva Shankar Reddy – Chairman, Mr. G Veera Sekhar Reddy- Managing Director, and supported by professionals from the engineering, accounts, finance and project monitoring teams. The company is focused on execution of engineering, procurement and construction (EPC) contracts especially in essential services such as Water Resource Management, Electric Power, Lift Irrigation, STP, road, drinking water and sanitation. At present, GVPR’s operations are spread across 10 States with 30 project locations, which are broadly divided into three segments viz. water supply and irrigation projects, road works, EPC of transmission and distribution lines and substations.

Key financial indicators

	FY2020	FY2021*
Operating Income (Rs. crore)	1845.5	1440.7
PAT (Rs. crore)	98.8	79.2
OPBDIT/OI (%)	9.7%	10.5%
PAT/OI (%)	5.9%	6.2%
Total Outside Liabilities/Tangible Net Worth (times)	2.2	2.0
Total Debt/OPBDIT (times)	1.8	1.7
Interest Coverage (times)	1.8	1.9

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; *provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)			Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Aug 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
					Sep 24, 2021	Aug 07, 2020	July 15, 2019	July 30, 2018	July 16, 2018
1	Cash Credit	Long-term	246.60	NA	[ICRA]A (Positive)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Positive)	[ICRA]A (Positive)
2	Bank Guarantee	Long-Term	1772.40	NA	[ICRA]A (Positive)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Positive)	[ICRA]A (Positive)
3	Letter of Credit	Short Term	310.00	NA	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
4	Non Fund based	Long Term/Short Term	-	NA	-	-	[ICRA]A (Stable)/[ICRA]A1	[ICRA]A (Positive)/[ICRA]A1	[ICRA]A (Positive)/[ICRA]A1
5	Unallocated	Long Term/Short Term	771.00	NA	[ICRA]A (Positive)/[ICRA]A1	[ICRA]A (Stable)/[ICRA]A1	[ICRA]A (Stable)/[ICRA]A1	[ICRA]A (Positive)/[ICRA]A1	[ICRA]A (Positive)/[ICRA]A1

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund Based – Cash Credit	Simple
Non-fund based - Bank Guarantee	Very Simple
Non-fund based – Letter of Credit	Very Simple
Unallocated Limits	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	246.60	[ICRA]A (Positive)
NA	Bank Guarantee	-	-	-	1772.40	[ICRA]A (Positive)
NA	Letter of Credit	-	-	-	310.00	[ICRA]A1
NA	Unallocated	-	-	-	771.00	[ICRA]A (Positive)/A1

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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